

**THE SUPPORT OF UNITED STATES OFFICIAL DEVELOPMENT ASSISTANCE  
(ODA) IN DEVELOPING MAIN SECTORS OF THE ECONOMY: A VISION FOR  
EFFECTIVE UTILIZATION OF AID IN EGYPT.**

**By**

**Nefret Zakaria El Nasser Ledin Allah Amin Haroon**

**THESIS**

Submitted to

KDI School of Public Policy and Management

in partial fulfillment of the requirements

for the degree of

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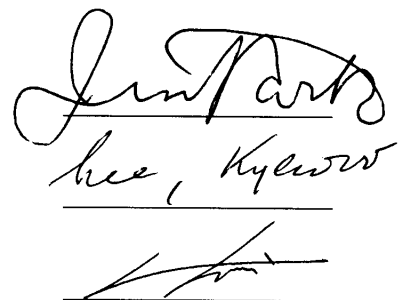
**MASTER OF PUBLIC POLICY**

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The image shows three handwritten signatures, each on a horizontal line. The top signature is 'Jin Park', the middle one is 'Kye, Kye-woo', and the bottom one is 'Choi'.

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## **ABSTRACT**

### **THE SUPPORT OF UNITED STATES OFFICIAL DEVELOPMENT ASSISTANCE (ODA) IN DEVELOPING MAIN SECTORS OF THE ECONOMY: A VISION FOR EFFECTIVE UTILIZATION OF AID IN EGYPT.**

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The Arab Republic of Egypt is a developing country with a lot of potential, Egypt has been receiving foreign aid for centuries but still development has not reach the level aspired. The Egyptian government receives aid from different countries and organizations since long time, but the United States provides Egypt with a large portion of aid on a yearly basis, financing different economic and social projects that assist the development of the Egyptian Economy. Nevertheless, financial assistance alone is not enough for reaching economic development and prosperity. Governmental policies and strategies are essential.

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**2012 (Year of publication)**

**Dedicated to :**

**My dearest family ,  
My Professors at KDI,  
My friends all over the world.**

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## **ABBREVIATIONS**

AERI	Agriculture Exports and Rural Income
CBE	Central Bank of Egypt
CAO	Central Auditing Organization
DAC	Development Assistance Committee
ECA	Egyptian Customs Authority
FTA	Free Trade Agreement
IMF	International Monetary Fund
IPR	Intellectual Property Rights
LDCs	Less Developed countries
MDGs	Millennium Development Goals
NARP	The National Agricultural Research Project
NICs	Newly Industrialized Countries
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
QIZ	Qualified Industrial Zones
SAP	Structural Adjustment Program
TIFA	Trade and Investment Framework Agreement
U.S.	The United States of America
U.S. aid	refers to the different types of assistance offered by the U.S.
USAID	United States Agency for International Development
WB	World Bank

## **Chapter 1**

### **INTRODUCTION**

#### **1.1 General Background**

In a globalized world with rapid economic development and high level of integration between the nations, the developing countries and the Less Developed Countries (LDCs) are struggling to solve their internal problems parallel with their participation in the global economic system. However, these countries at least are seeking to improve their economic conditions to have better positions between the developed world economies. There are many factors that determine the development process like executive leadership, economic and social policies, and the desire of the people to change and derive development. Another factor that assists the development process is the financial economic assistance (referred to as aid) provided by the developed countries to the developing ones (Szirmai,1997)

The effect of this economic assistance is a controversial issue between different scholars. Many would strongly recommend that the developing countries and LCDs to receive aid as this would reinforce their development process. On the other hand, others agree that aid hinders the development process and leads to greater problems.

Egypt is a developing country with a strategic location and political leadership in the Middle East and the African continent. Egypt has profound political relations with the European continent, Arab states, and African countries. Egypt is trying to develop and improve economically to resemble its political performance. Egypt has implemented several governmental reforms that foster the increase of investment, the improvement of the tax system and the development of the financial system. No doubt that the reforms and

government policies had their pros and cons, still the economic indicators showed an improving economic performance. (OECD, 2007)

Besides the internal reforms, Egypt has been the focus of concern and attention of the international community. In other words, the developed countries are assisting the Egyptian government in different ways to develop Egypt's economic performance in order to have a more active and crucial role in the international market.

Towards achieving the above-mentioned goal, Egypt has been receiving foreign financial assistance for several decades. Especially, economic assistance - loans and grants- is offered from different developed countries and International Organizations, but the United States (U.S.) provides Egypt with the largest portion of the aid on a yearly basis financing different economic and social projects that assist the development process of the Egyptian Economy.

Egypt has been receiving aid from the United States since 1978 until now (over 30 years) from the United States Agency for International Development (USAID) (Sharp, 2007), nevertheless, the level of the Egyptian economy hasn't reached the aspired level in comparison with other countries that had less resources and facilities. For example, Egypt has gained independence in 1953 which was the same year the Korean War ended and the South Korean government has started to build a devastated and poor nation. Nowadays, South Korea is one of the newly industrialized countries (NICs). The Korean government borrowed from the United States and Japan during its take off period. Korea now is one of the members of Official Development Assistance (ODA); providing financial and technical assistance to other developing countries. Taking into consideration that foreign assistance is not the only reason behind the Korean miracle (Kim , 2008) and here arises the efficiency of foreign aid.

This thesis is intended to assess the effect of the US aid on Egypt's economic development performance, questioning if the aid really enhanced the Egyptian economic derives and if government policies hindered development.

Dependency on aid is not a favorable condition –for most scholars- especially if it has exceeded three decades, bringing into question the development strategies and policies of the government. If aid has really helped the Egyptian economy to develop, many problems exist and the most important of which are unemployment and poverty; which are mentioned as targets to be eliminated by the US aid to Egypt. Therefore, this study will try to propose a new vision of better utilization of the aid in the required sectors towards a better developed economy and a greater and long run goal which is an independent economy.

## **1.2 Scope and Methodology**

Egypt has had a profound political and economic relationship with the U.S. since signing the Camp David Peace Agreement with Israel. There are many reasons behind the large amount of aid received from the US. The amount has been increasing since 1978 ranking Egypt as the second receiver of aid from the U.S. after Israel and nowadays –after the government of U.S. cut down the amount of aid - Egypt is ranked the fifth. This indicates the importance of Egypt's role in the Middle East and the Africa. (Sharp, 2007)

The U.S. aid has many types of foreign assistance to developing countries like economic assistance, humanitarian assistance, multilateral assistance and military assistance. The U.S. government has provided Egypt with all types of assistance, but this study will concentrate on the economic assistance which includes fields like education, health, industry, agriculture,

trade, political affairs and poverty alleviation (USAID, 2009). Through these 30 years, economic development has been achieved as indicators seems to be better and advancement can be recognized in comparison with 20 years ago, but still the different Egyptian government bodies and the Egyptian society faces several challenges .

The methodology of this study is largely qualitative exploring US aid effect on different sectors of the economy and analyzing current situation of these sectors. It will also include policy analysis by tackling how American and Egyptian government policies hindered development although the amount of assistance offered by USAID is big in comparison to other agencies. It also includes a brief overview of South Korea to prove that government policies and strategies -towards economic assistance- play a major role in development.

The sources for this study are based on several books, articles from different journals, reports done by the USAID and OECD, the American Congress and different Egyptian authorities. Information and statistics are also taken from USAID website and articles.

This current chapter is a general overview of the aim of the study and the methodology. The next chapter deals with the literature review of the topic including a brief history and definition of aid and ODA. Also, it includes the different views of the scholars regarding the dependency of developing countries on aid as they have not reached a consensus on how useful or how inefficient the aid is to the development process.

Chapter 3 tackles the political and economic relationship between Egypt and the United States; additionally, the chapter reviews the history of U.S. aid to Egypt and reasons behind offering it, and U.S. aid types, volume and its distribution among the sectors. Finally, comparing the U.S. ODA to other Donors.

Chapter 4 discusses the consequences and impact of the US aid on Egypt's performance in three main areas which are agriculture, education , trade and investment. Although there is a positive outcomes still the three sectors faces many challenges.

Chapter 5 will discuss the challenges facing the Egyptian government in regard of ODA management and suggesting some solutions. The chapter is concluded with South Korea's Model of development as a role model of utilizing aid and setting the right policies for development.

Consequently to the above studies and outcomes, Chapter 6 proposes new directions and recommendations for better utilization of the aid to solve the existing problems.

## **Chapter 2:**

### **Literature Review.**

#### **2.1 Definition and History of Aid:**

The exact definition of aid, foreign aid, foreign assistance, or ODA (can be used interchangeably), has been a debatable and controversial topic between the scholars. In 1960 the Organization for Economic Cooperation and Development (OECD) has established the Development Assistance Committee (DAC) which consists of 23 developed countries who agreed to offer Official Development Assistance (ODA) to the developing countries and the LDCs. (OECD, 2006). The ODA is defined as:

“Grants or Loans to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are: (a) undertaken by the official sector; (b) with promotion of economic development and welfare as the main objective; (c) at concessional financial terms [if a loan, having a Grant Element (q.v.) of at least 25 per cent]. In addition to financial flows, Technical Co-operation (q.v.) is included in aid. Grants, Loans and credits for military purposes are excluded. For the treatment of the forgiveness of Loans originally extended for military purposes, see Notes on Definitions and Measurement below. Transfer payments to private individuals (e.g. pensions, reparations or insurance payouts) are in general not counted” (DAC's Glossary).

Aid has been provided to poor countries since the 19<sup>th</sup> Century by the United States and Great Britain which was a kind of generosity to their colonial countries and meets their own interest. After the Second World War, the aim of the aid mainly offered by the United States to the restructure of the European countries after the War was know as “The Marshall Plan”. This



eventually lead to the establishment of the Bretton Woods institutions by the 1940's; World Bank (WB) main task of which was to raise capital for the reconstruction of Europe and Japan and International Monetary Fund (IMF) role was to promote international monetary stability (Moyo, 2009). Proving the positive consequence of aid in the reconstruction of European countries, the developed countries aid should be provided to the developing world and especially Africa.

Moyo (2009) categorized the aid periods emphasizing that during the end of the 1950's and 1960's, countries were gaining their independence from the colonial power and were in need of capital and technical assistance. At that time the DAC was established by the OECD.

During the next decade (1970's) aid was offered under the motive of eradicating poverty. This was because of the oil crisis after the Arab- Israeli War, so the aid was directed mainly to social considerations such as education and health as well as infrastructure and food supplies.

The 1980's experienced stabilization and structure adjustment policies by the IMF and WB as developing countries fell into debt trap and development stagnated. It is also worth mentioning that by the end of the 1980s, the rise of the Cold War and the fight over the ideologies between the United States and the former Soviet Union, made them provide extra aid to the developing countries to gain their alignment. This proved especially significant at that time the world experienced the success of the Laissez-Faire Ideology and the rise of the Asian tigers like Malaysia, Hong Kong, South Korea, and Thailand .

During the 1990's, developed countries concentrated on the idea of good governance for sustainable development, which includes reliable governmental institutions continuing with this idea through the 21st Century.

In 2005, the Paris Declaration was signed by donor governments and recipient countries towards a better utilization and effectiveness of the ODA. Following the Paris Declaration, the Accra Agenda for Action in 2008 was signed to ensure the commitments agreed on in the Paris Declaration. (OECD, 2006).

## **2.2 Literature Review on the Efficiency and Dependency of Aid.**

The impact of financial assistance on developing countries has been a controversial issue which has been tackled for a very long time by different scholars and specialists, some of which were for providing aid, and others were not. The effectiveness of aid depends on donor countries and recipient's characteristics which accelerate economic development in any third world country (Robert Cassen & Associates, 1994). One view would say aid has been an efficient mean towards development with good local policies and institutions in the recipient countries (Williams, 1996). Also, aid saved many countries from extreme poverty and impenetrable problems regarding health, building basic infrastructure especially without the existence of domestic capital. (Robert Cassen & Associates, 1994). South Korea is an example for receiving aid to build its infrastructure and economy after the Korean War during the 1950s.

The opposite view is against the idea of providing aid to developing countries and in specific African countries as it hasn't been effective to this day (Moyo, 2009). In addition, Burnell (1997) mentioned that aid hasn't fulfilled the needs and wants of the poor and the public in any developing country; besides, it created other problems like debt formation, unemployment, and corruption.

Proponents and opponents of financial aid have tackled this issue from different perspectives. This literature review will tackle the view of different authors regarding some of these perspectives: reasons behind providing aid, conditionality, economic performance, institutions and policies and dependency issues.

### **Reasons Behind Providing Aid:**

Reasons for providing foreign assistance include not only development, but also to decrease the consequences of natural disasters, protect the donor country's political and strategic interests, enhance investment opportunities, or even increase the donor's exports (OECD, 2006). Szirmai (1997) emphasized that providing aid is helping the developing world to catch up with rapid economic changes in the world and aid is a method to decrease poverty and ensure better standard of livings.

Opposing this view, donors mainly have political or economic incentives to provide aid which affect the development objectives and process negatively (Robert Cassen & Associates, 1994). William (1996) stated that foreign aid may not be functional in accelerating economic growth when the donors form their programs having another "goal in mind"; for example, quotas were set by American government on textile imports from Bangladesh directly after providing foreign aid to the government to expand its textiles exports (20).

### **Conditionality:**

Aid or "policy based lending" is one way to oblige the developing countries to change their policies and improve their institutions. This policy made real improvements in the structure and implementation of policies in several African countries. (Robert Cassen & Associates, 1994)

However, Moyo (2009) disagreed claiming that conditionality is one of the main problems of providing aid especially if it is tied aid that has to be spent on certain sectors or goods; which most of the time will benefit the donor country on the long run. Also, in case of the recipient government will approve to address economic and political reforms or new policies which almost are ignored when the aid is provided.

### **Economic performance**

Another debatable issue is the consequences of aid regarding the economic performance of the recipient countries. Several studies dealt with that issue either positively or negatively, concentrating on the level of investment and level of trade especially exports.

For the proponents, aid is seen to have played a role in building new infrastructure, promoting agriculture and manufacturing, provided skilled manpower and helped in institution building. Also, aid is important especially to support the budget and balance of payment in case of crisis and nature disasters (Robert Cassen & Associates, 1994). Cherny and Strout (cited in Szirmai 1997) explained that aid helps to fulfill “the saving gap” where there is a lack of domestic capital for investment. As capital is provided, investment opportunities begin and a successful outcome is aimed to be experienced. It is believed that aid is a benefit to the developing countries as it will help to pull them out of the vicious cycle of poverty by providing capital which is scarce in most developing countries. The various cycles is that capital leads to investment which offers job opportunities shifting the standard of living of the citizens and eventually eradicating poverty on the long run (Robert Cassen & Associates, 1994). Also, additional capital to any Third world economy will be utilized in the investment of the basic infrastructure, education, and health (Williams, 1996).

Szirmai (1997) indicated that foreign assistance will help to secure another gap “The foreign exchange gap”. The second gap could be explained that aid would provide foreign exchange to the recipient government which needs foreign money to import equipments and machines needed for new investments and industries.

On the other hand, opponents said “despite decades of foreign assistance, most of Africa and parts of Latin America, Asia and the Middle East are economically worse off today than they were 20 years ago.” The outcome of speeding up the provision of aid to the transition economies, would be a disaster as illustrated the Philippines where the government after that receiving large amount of aid was requesting more aid rather than setting new reforms and policies and implementing them. (108<sup>th</sup> CATO Handbook for congress). Aid to developing countries cannot be compared to the Marshall Plan which assisted in the development of the European continent as aid represented 3% of the GDP in European countries compared to 15 % of the GDP in African countries (Moyo, 2009).

Moyo (2009) also touched on the low level of investment existing as result of low level of savings because of the existence of other financial resources that could be attained. According to various studies; it was concluded that aid and public savings have a negative correlation, which doesn't add to the investment opportunities. Aid resulted in an increase in consumption that does not add to domestic savings; consequently, it doesn't promote growth (Williams, 1996). Confirming the above “Having capital is result of successful economic performance not its preconditions” (Bauer, 2000,46).

Also, aid destroys the export sector as the country will increase domestic demand which will lead to raise in the prices of resources that are limited domestically and ending with an

uncompetitive export sector, also, IMF pointed out that flow of aid and a rising exchange rate ends up with a poor productivity hence weak export sector (Moyo, 2009)

### **Institutions and Policies:**

Governmental institutions and domestic policies play a major role to get the most out of the foreign assistance; still debatable. Easterly (2003) emphasized that increasing the amount of aid does not indicate economic growth, it might but only with the existence of good government policies and he stressed on the donors should concentrate on the quality of the aid not the quantity. Craig Burnside and David Dollar (2000) explained that donors agencies should increase the amount of aid if the recipient country had good policies. Therefore, with good microeconomic policies that would help in accelerating growth. Even if aid didn't add to the economic development of a country still aid suggests policy reform and help in the transition to market oriented economies; in addition, it works as "safety net" that would save the people from any negative consequences of any new policies (Robert Cassen & Associates, 1994,17).

With the existence of weak financial institutions structure, flawed policy environment, and unskilled manpower, aid will be ineffective. Moreover, donor agencies and countries seem not to avoid past mistakes that deals with the quality of lending not quantity (Burnell., 1997). No one can assure that foreign aid recipients will implement the political and economic policies that favor growth and development. (Williams, 1996)

In connection with institutions and policies, Bauer (2000) referred to the North-South dialogue which one of its contents is offering aid to third world countries criticizing this assistance which goes to the rulers and not to the "destitute people" (P.42). Burnell (1997) adds that aid

is usually placed in the wrong hands resulting in corruption; sometimes even there might be struggle over the power between politicians as they are aware of the benefits behind the aid granted.

### **Dependency Issues:**

Dependency on aid is another perspective where supporters stated that aid helped in the advancement of many countries from a low income to a middle income country like Brazil and Thailand; others countries have developed competing with the developed world like South Korea and Taiwan. In addition, aid has helped many poor and unprivileged countries to start their initial economic phase (Robert Cassen & Associates, 1994), (SzirmaiAdam, 1997).

Conversely, The United States –after implementing the Marshall Plan - stopped the flow of aid to Europe after 5 years which made the European countries more independent, but regarding the developing world aid is continuous and there is no threat to be cut in the future; “There is no incentive for long term financial planning, no reason to seek alternatives to fund development, when all u have to do is sit back and bank the cheques.” (Moyo, 2009, 36). In this context, Bauer (2000) referred that some countries and communities developed without aid like South Africa, questioning the possibility of third world to do the same under the culture of aid.

### **Summary of the Chapter**

As it can be interpreted, it is hard to determine if aid is effective to any country or not. Nevertheless, there are certain requirements for the recipient countries that the proponents and most of the opponents might have agreed upon like: stable economic policies, reliable institutions, human capabilities, political stability...etc. Also, the donor countries and agencies have to seek the prosperity of the nations before considering their own benefits and interests as this would have a positive impact on them on the long run.

### **Chapter 3:** **U.S. Assistance to Egypt**

#### **3.1 Relations between Egypt and United States of America regarding the US aid.**

After the Egyptian – Israeli war in 1973, Egypt was totally destroyed. The Egyptian government under the leadership of President Anwar El Sadat changed its economic system from a socialist to an open market economy with new amendments to the constitution and new economic policies. One of the most important policies is being an ally of the United States of America (U.S.) after previously being an ally of the Soviet Union since independence in 1952. Relations between Egypt and the United States have flourished after signing the Camp David Agreement with Israel in 1978; and Egypt has become one of the largest recipients of United States economic assistance in the world. (Dunstan, 2007).

Since that date, relations between Egypt and United States took a different perspective with profound military, political and economic cooperation. Aid was chiefly provided by the United States Agency for International Development (USAID), which was established in 1960s after the Marshall Plan (USAID, 2009). USAID assistance to Egypt has totaled \$28.6 billion from 1975 to 2009.

The main target of US aid was to ensure peace and decrease political tensions and unrest in the Middle East. In addition, U.S. shall guarantee Egypt's alliance in the region and international agenda. Assistance is mainly divided on military and economic aspects.



### **3.2 Current Political and Economic Relations.**

Politically, since the signing of the Camp David Agreement, Egypt has been a close ally to the United States and had strong diplomatic relations. Viewing and recognizing the role Egypt can play in regional affairs; both governments cooperate closely to ensure peace and political stability in the Middle East area especially regarding the Palestinian – Israeli Conflict and the Iranian nuclear issue.

Currently, the U.S. government is pushing the Egyptian Government towards better democracy and achieving human rights standards under a program of better democracy and governance (Country Report : Egypt, 2006). In 2004 the U.S. government decided to assist Egypt by offering approximately \$600 million annual economic assistance with a view to promoting democracy,

Economically, economic assistance is one of the main connections between both governments developing different areas and fields in the Egyptian economy like taxation system, trade and investment, and agriculture. Egypt is ranked as the fifth largest recipient of US aid. Also, the United States is the second largest foreign investor in Egypt particularly devoting resources in the oil sector (Sharp, 2007).

The United States is Egypt's biggest bilateral trading partner, especially importing American wheat, equipment, machinery and agriculture commodities. There was an initiative to sign Free Trade Agreement (FTA) with the United States under the assertion of doing so could push the Egyptian development process forward. A Trade and Investment Framework Agreement (TIFA) were signed in 1999, yet issues regarding the Intellectual Property Rights (IPR) have been hindering the procedures to have a full fledged FTA. In 2008, the situation

had improved regarding the IPR level; however, the American government stagnated the discussions of the FTA, assuming that the Egyptian economy is not ready for that step.

On the other side, the United States suggested a U.S.-Egyptian Plan for a Strategic Partnership to promote cooperation between the two countries by having Qualified Industrial Zones (QIZ). In December 2004, Egypt signed an agreement with Israel to designate several QIZs in Egypt under the U.S.-Israeli Free Trade Agreement where goods produced in Egyptian QIZs would be exported to the United States duty-free. The products should contain at least 10.5% input from Israel; most of these products are textiles (Sharp, 2009) . The following table shows Egypt QIZ's exports to US, which is increasing along te years:

**Table -1 Egypt QIZ's exports to US**

			US\$ Million
	Textiles and clothing	Food Products	Exporters (No. of companies)
2006	636.2	1.3	173
2007	688.3	0.6	187
2008	743.7	1.0	166

Source: American Chamber of Commerce in Egypt

### **3.3 Current American Policies concerning providing aid to the Egyptian Government.**

Sharp (2009) has mentioned that the 108<sup>th</sup> Congress until the 111<sup>th</sup> Congress discussed and debated the assistance offered to the Egyptian government concentrating on decreasing assistance, or more precisely military aid, to Egypt; these debates ended with gradual reduction of aid . The general aid has decreased to \$1.6 billion in the fiscal year 2009 from \$ 2.1 billion in fiscal year 1998, and will decrease even more on a yearly basis. Regarding direct economic assistance, the reduction has been from \$815 million in FY1998 to approximately \$411 million in fiscal year 2008. Also, a shift in assistance from infrastructure, health, food supply, and agriculture toward market-based economic development, good governance, and training programs is reflected by “From Aid to Trade.”

US aid to Egypt is a debatable issue within the US Congress. Congressmen have stated that although the foreign assistance to Egypt doesn't have a direct impact on the Egyptian economy, it is still essential to provide Egypt with economic and military aid for the political benefits in the region. Egypt has strong political and strategic diplomacy in the region especially regarding the Middle East conflict. Therefore, the aid helps Egypt to be a close ally of the United States, which provides additional advantages and benefits like easy access of the US navy through the Suez Canal, over-flight rights to US aircrafts, and military cooperation (Sharp, 2009).

Recently the United States has imposed certain policies on the Egyptian government to exert efforts on democracy issues and human rights issues. Part of the assistance since 2004 is targeting democracy and governance area, so about \$206.4 million will be spent in these areas between 2004 and 2009 (Sharp, 2009). Donor Government policies play a major role in shaping kind and amount of assistance specified to recipient countries in particular if there is any strategic interest behind providing aid.

### **3.4 U.S. Aid to Egypt**

#### **3.4.1 Categories of U.S. Aid to Egypt.**

US aid directed to developing countries can be concentrated into five major categories of foreign assistance: bilateral development aid, economic assistance supporting U.S. political and security goals, humanitarian aid, multilateral economic contributions, and military aid. Assistance in these categories can be either through grants or loans. There are different forms of grants which are: cash transfer, commodity import program, economic infrastructure, training, and experts. (USAID : History, 2009).

Foreign assistance was provided to the Egyptian government to support economic and military goals, but recently has included political aspects. The Economic Support Fund (ESF) and the Foreign Military Financing (FMF) are the two main programs through which Egypt receives foreign assistance from the US. The ESF is directed towards three targets which are: to strengthen the trade and investment environment, to build up competitive opportunities in the private sector and gain access to sustainable utility services. (Mirette, 2012, p 6).

The military assistance is an important pillar of the bilateral relationship between both countries which expanded significantly in the wake of the Egyptian-Israeli Peace Treaty in 1979. U.S. military aid to Egypt is estimated to be over \$1.3 billion annually. U.S. military cooperation has helped Egypt develop its armed forces and reinforce regional security and stability. Under Foreign Military Financing (FMF) programs, the U.S. has provided F-4 jet aircraft, F-16 jet fighters, tanks, armored personnel carriers, Apache helicopters, antiaircraft missile batteries, aerial surveillance aircraft, and other equipment. The U.S. and Egypt also took part in military exercises, including deployments of U.S. troops to Egypt. In 2011, Egypt received almost a quarter of all U.S. FMF funds, and Israel received nearly 60%. FMF aid to Egypt is divided into three general categories: (1) acquisitions, (2) upgrades to existing equipment, and (3) follow-on support/maintenance contracts.

Regarding the economic assistance, USAID has worked comprehensively with the different sectors of the Egyptian government throughout the 30 years to assist in developing the Egyptian economy to be globally competitive. USAID engaged in many developmental sectors, the most important of which are: agriculture, trade, investment, education, health, infrastructure, and lately democracy and governance. It has provided Egypt with \$25 billion in economic and development assistance to Egypt between 1975 and 2002.

The Commodity Import Program is one of the main US aid program which facilitate the Egyptian private sector to import U.S. goods. Since 2003, U.S. assistance is also focusing more on economic reform, education, civil society, and other programs.

The following table shows the different US aid programs to Egypt from the fiscal year 2006 to fiscal year 2009, which show how military assistance overweighs the economic assistance.

**Table 2- U.S. Assistance to Egypt, FY2006-FY2009**  
(Regular and Supplemental Appropriations; Current Year \$ in millions)

Program	FY 2006	FY 2007	FY 2008	FY 2009
<b>Economic Support fund (ESF)</b>	490.050	455.0	411.639	250.0
<b>Foreign Military Fund (FMF)</b>	1,287.0	1,300.0	1,289.470	1,300.0
<b>International Military Education and Training (IMET)</b>	1.208	1.203	1.237	1.316
<b>Non-Proliferation, Anti-Terrorism, Demining and Related (NADR)</b>	1.029	1.545	3.545	52.000
<b>International Narcotics Control and Law Enforcement (INCLE)*</b>				
<b>Total</b>	<b>1,779.287</b>	<b>1,757.748</b>	<b>1,705.891</b>	<b>1,603.316</b>

Source: U.S. State Department.

\* These are funds for counter terrorism, border control, and technical cooperation.

### **3.4.2 Distribution among the Different Sectors.**

Through the 30 years of providing aid to Egypt, the US aid has been contributing and assisting different fields of cooperation taking in consideration the military assistance which is a default. The 30 years can be summarized in 4 periods, as follows:

- **First Period 1975-1980:** Improving the physical infrastructure of Egypt, improving technical and scientific expertise, intensifying agricultural and productivity, health care, education, restoration and reopening of the Suez Canal, developing Egypt's infrastructure in electric power generation, telecommunications, port facilities, grain storage capacity and clean water distribution.

- **Second Period 1980- 1990:** Education, health and family planning. Supported Egypt's transition to a market economy through the SAPs by strengthening the private sector.
- **Third Period 1990s-2000:** focus on economic reforms and liberalization through privatizing state owned enterprises. Infrastructure support like by improving water-use efficiency, reducing air pollution and protecting natural resources. A non-economic interest that includes improving the civil courts and increasing support of Egypt's non-governmental organizations (NGOs).
- **Fourth Period 2000-current:** "aid to trade" the 2008-2009 plans focus mostly on the creation of private sector and FDI. Another field is the issue of political reform and democratization promoting more transparent and accountable government (USAID, 2009).

Economic and social reforms and development have been the main concern of U.S. throughout the year of helping Egypt. Democracy, political reforms, importance of civil society and governance are the new interest of the U.S. government. Table 3 - clarifies each sector and how much U.S. aid has been spent to the different factors.

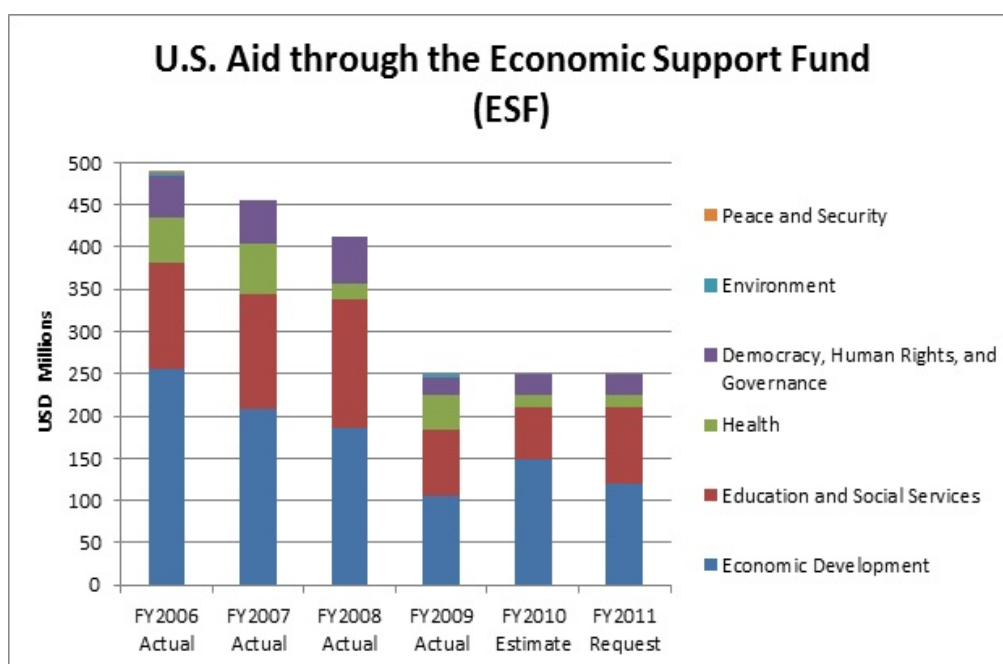
**Table – 3 USAID spending on sectors**

<b>Sector</b>	<b>Total Assistance from 1975-2009</b>
Military	\$ 1.3 billion/year
Enhancing Trade and Investment	\$15.7 billion
Sustainable Utility Services	\$5.75 billion
Education	\$1.14 billion
Democracy and Governance	\$1.13 billion
Health	\$983.9 million

Source: USAID website

The following graph shows how the ESF aid is distributed among the different sectors. It is clear that economic development, education, and social services receive the highest portion of U.S. aid :

**Graph 1- U.S. aid through ESF**



Source: U.S. Foreign Assistance Dashboard

### 3.4.3 General ODA offered to Egypt in comparison with U.S. aid.

Economic assistance is offered in different forms and amounts and through bilateral, multilateral cooperation or even through financial institutions. U.S. has been always a major economic partner for Egypt. Even regarding the ODA, U.S. offers the highest in comparison to other countries and institutions. The following charts show that in 2009, U.S. has offered the highest ODA. That ensures its political and economic objectives in the region.

U.S. is ranked as the first highest donor as it has offered Egypt US\$ 247.1 million in 2009, Germany is the second with US\$ 173.9 million, third place is France with total of US\$ 145.3 million. Concerning international institutions European Union institutions are ranked the first

with US\$ 195 million and International Fund for Agriculture Development (IFAD) is the second with total of US\$ 48 million. Still, financial economic assistance form U.S. is the highest. (OECD)



## **Chapter 4**

### **Impact of US aid and Challenges facing the Egyptian Economy**

#### **4.1 Accomplishments and impact of USAID in three main sectors.**

The previous chapter has noted the different types and programs of US assistance to Egypt.

The study will concentrate on the economic assistance and how US aid has positive impacts on the Egyptian economy and the social life of the society for more than 30 years. During mid-1970s and 1980s, the key sectors of cooperation were infrastructure (electricity, telecommunications, port facilities), agriculture productivity, health care, and education. In the 1990s, the focus was on economic reforms and liberalization through the structural adjustment programs (USAID , 2009). Also, in 1994 the relations between the two countries witnesses a new phase of cooperation which is US- Egyptian Partnership for Economic growth and Development focus on economic liberalization, trade and investment. USAID-Egypt strategic plan 2000-2009 was issued for various types of cooperation political, economic, and social.

This section, includes the main achievements of US aid in three main sectors of the economy, it is hard to tackle all fields of cooperation, but the most important of which are: Agriculture, Education, trade and investment.

Choosing these three pillars is due to the importance of having a self sufficient agriculture sector especially with the augmenting population that reached 75 Million and reducing the dependency of importing food and agricultural products. There is no nation that could develop with poor education system on all the levels; therefore, it essential to mention that sector. Lastly, in a globalized world trade and investment is important to any country to

merge and integrate into the international markets and also it is essential for domestic economic growth; moreover, many countries dependent on trade and investment to take off toward development.

#### **4.1.1 Agriculture:**

Although the productivity of the agriculture sector is still low, it has started to perform better in recent years. It is a vital sector in Egypt for job creation and generating income for rural areas especially in Upper Egypt. Agriculture presents 15 percent of GDP and the sector has witnessed an increase in the value-added average of about 3.4 percent annually from 2001 to 2005 (Ender and John, 2003). There is a clear increase in the production of crop, livestock, and cereals. In addition, there has been an increase in exporting nontraditional crops like: citrus, groundnuts, and preserved and dried vegetables between 2002/03 and 2006/07. (Egypt: Economic Performance Assessment, 2008).

The agriculture sector has been a foundation of the relations between the two countries. About \$US 1.3 billion has been provided through USAID programs since mid 1970s focusing on:

- Agricultural policy reform: signing agreement between the two countries which included those main policies that need reform, improving allocation of water resources and increasing productivity of food products. The policies designed and implemented has affected the agriculture sector positively as through the years, reforms and policies were concentrating on a more efficient sector by privatizing and participation of stakeholders. Therefore, exports of fruits and vegetables have doubled and incomes have increased in this sector.

- Research and development: concentrates on use and benefits of agricultural biotechnology that aims to increase the amount of fresh fruit and vegetable exports from small, medium, and large producers and exporters.
- agricultural workforce and employability: establishing Agriculture Technical School to train and improve the skills of graduates to meet the market demands. More than 17,500 students at Agriculture Technical Schools have completed internships at 44 commercial farms and more than 4,350 students have found employment in the agriculture sector. (Ender and Holtzman, 2003).
- operating the National Agricultural Research Project (NARP), which functioned from the mid-1980s until the mid-1990s, symbolizes as the major agricultural research development project ever done by USAID in Egypt. An amount of US\$ 205 million aimed at developing Egypt's adaptation and use of modern technology to support agricultural production. (Lewis, 2011 )

Several achievements during the years 2004-2009, as USAID had offered \$US 19 Million for this sector focusing on poor areas in Upper Egypt region. These achievements could be summarized as follows:

- creating more than 100 horticultural producer associations with more than 20,000 producers receiving training in new techniques; average net farmer income among association members has doubled over four years;
- Improved livestock and dairy marketing through the creation of 67 livestock producer associations; net income among participating farmers almost doubled over two years;
- Development of an Egyptian National Authority for Bio-Safety through which farmers are trained in the safe use and benefits of agricultural biotechnology;

- Integrated water management districts covering 1.2 million feddans – 15 percent of Egypt’s irrigated land – to integrate all water management functions into a single system for better management of scarce water resources;
- Formation of 600 Water Users’ Associations involving 500,000 water users in 27 districts, allowing Egyptian farmers to participate for the first time in the management of irrigation systems, sharing in canal and structure maintenance, conducting public awareness programs, and resolving conflicts.(USAID: achievements , 2011).

Recently, with the new technologies and export practices, Egypt's farmers exported more of the high-value crops - such as grapes, melons, strawberries and potatoes. USAID supported reforms in agriculture and agricultural business helped increase Egyptian agricultural exports from \$8.2 million in 1975 to \$541 million in 2005.

USAID programs have supported the agricultural sector and increasing exports through technological support, managerial training, and the giving out market information to farmers. These activities have been an important factor to the increase of production, employment, rural income growth and poverty alleviation (Program Overview, 2009).

The USAID is implementing a program in Egypt titled Agriculture Exports and Rural Income (AERI) which started in 2003. The main purpose of the program is to offer technical assistance and grants to ensure agriculture high quality production of agriculture products in order to be exported. Also, the program concentrates on increasing agricultural incomes of smallholders in particular in Upper Egypt and maintain for them successful access of new local and international markets. ( Lewis, 31 and 186-8)

Abou-Hadid praised the achievements of the program which resulted in having 79 Farmers Associations in Egypt, training 2,400 growers, facilitating communication between 31 exporters and/or buyers and managing the production of smallholders. Also, the average income of member's of Farmers associations has increased by 226 percent to reach 7,251 Egyptian pounds per year. (22)

#### **4.1.2 Education**

USAID had worked - over the past 35 years- on basic and higher education in Egypt attempting to decentralize the education system in Egypt knowing the importance of education to development of any society. Also, USAID recognized several problems that hindered the advancement of education in Egypt such as: untrained instructors, unequipped schools, low enrollment of girls and drop out of boys, poor curriculums for basic and higher education especially graduates of universities cannot meet the equipments of the work force market.

USAID provided a program titled the Education Reform Program with assistance at both the system and school levels to help implement the reforms. The period of 2005 to 2008 experienced an increase in planning and policy initiatives. Progress was achieved on decentralization only now beginning to be incorporated in the institutional framework of policies and procedures, and policy implementation is in its early stages. (Gillies, 2010)

Eight major policy reforms between 2006 and 2008 were formulated affecting community participation and authority, financial decentralization, quality assurance, teacher development, and decentralization for school spending authority. However, the implementation of these reforms is only just starting with a small-scale pilot of financial transfers to schools. (Gillies, 2010)

Since 2004 to 2009, seven governorates had a 20 percent improvement how teachers teach and how schools are managed. USAID had spent \$438 million on education programs in Egypt and worked closely with the government of Egypt to achieve the following outcomes as stated on USAID website:

- Progress on decentralization of education administration, financing, and decision-making authority to school districts in the governorates of Fayoum, Ismailia, and Luxor.
- Establishing 34 schools to attract increased enrollment by girls in underserved communities, resulting in a total enrollment of 13,600 female students;
- Participation by 16,000 Egyptian primary schools in a school improvement program based on Egyptian national standards;
- Improving the facilities of libraries in all 39,000 Egyptian public schools, totaling over 24 million books;
- Built more than 2,000 schools and stocked 39,000 school libraries, and helped Egypt double literacy levels.
- 921 Egyptian students receiving undergraduate or graduate degrees at U.S. universities and colleges and the American University of Cairo.
- Over 550 talented Egyptian students from disadvantaged backgrounds have been admitted to USAID's undergraduate scholarship programs.
- Over 830,000 classroom teachers and administrators (87% of the total) tested under the new "Teacher Cadre" initiative. (USAID: achievements, 2011).

The following table resembles the achievements of U.S. aid regarding the education system in Egypt from 1991-2006:

**Table- 4 Egypt's Education Indicators**

Indicator	1991	1999/2000	2006
Number of Primary Students	-	8,086,000	9,988,000
GER Primary	94%	102%	105%
NER Primary	86%	94%	96%
Completion Primary	-	97.3%	97.5%
Survival to Grade 5	97%	99%	94%
GER Secondary	-	82%	88%
Teacher:Pupil Ratio	24:1	23:1	27:1
Gender Equity Ratio (Girls:Boys)—Primary	.83	.91	.95
Repetition Rate—Primary	9.1%	6.0%	3.1%
Education as % of Government Budget	-	-	13%
Education as % of GNP	-	-	4.2%
\$ Per pupil current spending	-	-	-

Source: (Gillies, 53)

#### **4.1.3 Trade and Investment:**

One of the main goals of USAID is to provide a better environment for trade and investment in Egypt. It has addressed major targets to facilitate that kind of environment such as privatizing the financial sector, facilitating trade and investment policies and procedures, and increasing the competitiveness of resource-based industries (Partners, 2009).

Certain measures were taken by USAID in cooperation with different Egyptian ministries. These measures include signing of a multi-year Financial Sector Reform Memorandum of Understanding in 2005, technical assistance and training was provided to the Egyptian Customs Authority (ECA) to suggest new procedures and restructure the ECA's organization. Also, USAID helped the Central Bank of Egypt (CBE) in establishing the Monetary, Foreign Exchange and Non Performing Loans (Partners, 2009).

### **Trade:**

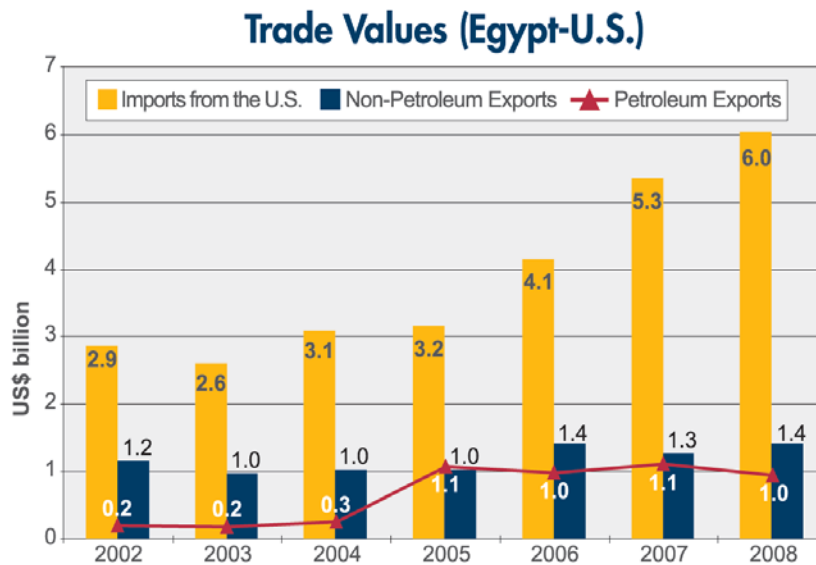
The abovementioned activities helped the Egyptian trade to be in a better position as it has flourished from 46.1 percent of the GDP in 2002/03 to 65.1 percent of GDP 2006/07 and export value had grown by an average of 19.6 percent annually during the same period (Country Report : Egypt, 2006). Liquefied natural gas exports increased significantly from \$17 million in 2003 to nearly \$3 billion in 2006, hydrocarbons represented 47 percent of exports in 2006/07. In addition, manufactured goods have increased noticeably; for example, pharmaceutical exports, textiles, iron and steel, fuel exports still constitute 30 percent of the total value of Egypt's exports. (Egypt Economic Performance Assessment, 2008).

On the other hand, imports had increased than exports since 2004 nearly by 24.7 percent annually. The main imported goods are investment goods (e.g., computers and motors) and intermediate goods (e.g. chemicals, plastics, and iron and steel products) which accounted for more than half the increase in imports. Meanwhile, fuels and consumer goods are said to be that a great portion of the imports has been part of the productivity of investment. (Egypt Economic Performance Assessment, 2008)

The United States is Egypt's largest trading partner, with a volume of trade reaching \$8.4 billion in 2008 that represents 5.83% of Egypt's GDP (Egypt-U.S. Relations Profile, 2009). It can be illustrated from the next graph how the trade balance between the two countries is in favor of the United States. Egypt exports petroleum, clothing, carpets, and fertilizers and it imports machinery, wheat corn, and transportation equipment.



**Chart-2 Trade values between Egypt and U.S.**



Source: (US – Egypt relations Profile, 2009)

Egypt-U.S. trade functions by two schemes aiming to increase Egypt's exports to the U.S. The first is the U.S. Generalized System of Preferences (GSP) which is a preferential treatment program where certain products are eligible for duty-free entry to the U.S. under certain qualifications. The second is the Qualifying Industrial Zones (QIZs), trade agreement that combines industrial components from Egypt and Israel in finished manufactured goods from selected industrial zones that enter the U.S. duty-free. (American Chamber).

First, The U.S. Generalized System of Preferences (GSP) is a program designed to promote economic growth by offering preferential duty-free treatment for 4,800 products from 129 designated beneficiary countries and territories. The GSP program began on January 1, 1976, and authorized under the Trade Act of 1974.

Egypt is a beneficiary country under GSP since 1976 and yet GSP accounts for only 2% of Egypt's total exports. Egypt exports about 364 GSP products, thus making use of only 11% of its potential to export duty-free. In 2011, Egypt GSP exports made USD 48.6 million. Egypt exports approximately 83% of textile and apparel products and petroleum which are not eligible for GSP treatment.

Secondly, the initiative of FTA between the two countries has ended up with the signing of the QIZ. “Investment in QIZs is particularly attractive to industries subject to high tariffs in the U.S. market, particularly textiles and clothing” (Egypt-U.S. Relations Profile, 2009. P.3). Therefore, it is clear that 81% of QIZ companies manufacture textiles and clothing , while other 7 percent are food stuff companies, other specializations are being added like base metals and furniture. The table below shows Egypt’s QIZ exports to the United States. (Egypt-U.S. Relations Profile, 2009).

**Table 5- Egypt’s QIZ exports to the United States**

US\$ Million

	<b><u>Textiles and clothing</u></b>	<b><u>Food products</u></b>
<b>2006</b>	636.2	1.3
<b>2007</b>	688.3	0.6
<b>2008</b>	743.7	1.0

Source: (US – Egypt relations Profile, 2009)

Although the Egyptian trade has witnessed improvements, the trade deficit in favor to the United States is still there. The imbalance exists not only for the United States, but also all the major partners like China and European Union.

**Investment:**

Generally, the gross investment level increased from 18.7 percent of the GDP in 2007 to 22.2 percent in 2008. The gross fixed private investment reached 18.9 percent of GDP in 2006/07. Still some obstacles exist in the regulator system as long delays for property registration which affect access to business negatively (Egypt Economic Performance Assessment, 2008); even though, situation nowadays is better than before according to Doing Business report (2007) which ranked Egypt one of the best business reformers in 2007 improving several aspects like: initiating a business, dealing with licenses, registering property, trading across borders, and closing a business. Recently mobilizing funds (domestic credit) to the private sectors indicates the improvements that took place in the financial institutions' system.

A special focus during the last decade on Egypt investment regulations and privatization procedures, as the U.S. believes it is the driving force towards rapid economic growth contributing to solve other social problems like unemployment and poverty. Also, it is an engine to increase Egypt's exports.

As has been mentioned above the importance of improving the financial sector and reducing the red tape to foster investment opportunities in Egypt, the USAID facilitated the finance needed for imports to stimulate private sector investments, created a real estate finance industry, improved the SMEs sector, expanded the ICT base, and provided employment opportunities (Sherif, 2007).

USAID's had provided microfinance development program to the SMEs since 1991. By 2005 one million people had benefited from this program. USAID provided more than 805,000 loans valued at over about US\$191 million in the course of the year. Women were the

beneficiaries of this program represent more than 65% of the total borrowers who are economically in disadvantaged areas (Partners, 2009).

As indicated in the table below and in the Egypt-U.S. Relations Profile (2009), the United States investments are the first on the list of countries; investing \$8.78 billion until September 2008 forming 36.1 % of the investment inflows. Most of the United States investment is in the petroleum sector, one of the companies' total investments in this field accounted for \$5.6 billion in 2008.

**Table 6- US Direct Investment Position in Egypt (\$ billions)**

<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008 (Q1-Q3)</b>
3.52	4.53	5.48	6.51	7.51	8.78

Source: U.S. Bureau of Economic Analysis (BEA)

USAID had worked closely with the Egyptian private sector business growth in order to strengthen the settings for trade and investment. USAID had contribute with \$1.6 million in 2004 in that field by Establishment of the Consumer Protection Agency; reinforcing of the intellectual property rights by reducing the registration period for trademarks from 48 to 12 months (the international standard), and from 60 to 34 months for patents; reforming the tax structure and adopting best practices which led to rise in tax revenues by 40 percent in one year ; establishing Smart Services Business Center in Alexandria that encourages operation of new business and improving licensing procedures by reducing the period of issuing a license from 78 weeks to 8 weeks. (USAID : achievements ,2011).

The stock of the U.S. FDI in Egypt stood at USD 14.6 billion as of March 2012, representing 24% of U.S. direct investment in Africa. In the first three months of 2012, the U.S. had the second largest investment inflows to Egypt after the UK, accounting for 6.8% of total foreign investment inflows to Egypt in that period. The table shows total FDI in Egypt and the share of U.S. investment to Egypt. (American Chamber )

**Table 7 - US Direct Investment Inflows to Egypt (USD billion)**

	Total FDI to Egypt	US Direct Investment Inflows	Share of the US in inflows to Egypt
2007/08	17.8	6.45	36.2%
2008/09	12.8	3.52	27.5%
2009/10	11	1.42	12.9%
2010/11	9.6	1.79	18.6%
Jan-Mar 2011	1.8	0.16	8.9%
Jan-Mar 2012	3.1	0.21	6.8%

Source: CBE

#### **4. 2 Impact of U.S. Aid and Challenges facing the Egyptian economy**

The impact of U.S. aid in the previous sectors is measured by the achievements done in the field by cooperation between the Egyptian concerned authorities and USAID. These achievements have positive impact on the Egyptian economy as they will be the base for further developments that has to be accomplished by the Egyptian authorities.

Although U.S. assistance has its remarkable achievements still there are several drawbacks form both American and Egyptian governments' policies and strategies that hindered development.

From the above observations, it is clear that throughout the years there has been progress in the three areas. This progress is due in some part to the assistance of USAID either financially or through technical assistance or suggesting reforms to the different departments of the Egyptian government. Still reports have tackled several major challenges.

This section shall analyze the challenges facing the Egyptian economy and in particular the three sectors of cooperation. Then, the study will be policy analysis of why after almost 30 years of cooperation with USAID, still the Egyptian economy is facing many challenges and obstacles in three sectors of the economy. These challenges are the result of political and economic policies set by American and Egyptian governments, which eventually caused slow development process. The last part of this chapter shall tackle how South Korea's government policies and regulations regarding the utilization of foreign assistance had been a catalyst towards economic development and social prosperity.

#### **4.3 Challenges facing the Egyptian economy with implications on the three sectors .**

Egypt receives aid not only from USAID, but also other countries and international organizations since a long time. All of which contributed in all sectors of the economy and no doubt they have achieved a success story like USAID. Nevertheless, many challenges are encountered.

General challenges such as poverty which is a great problem in the Egyptian society, as about 43.9 percent of Egyptians lived on less than \$2 per day in 2000. Although there are signs of economic growth, poverty rates are still high (Egypt Economic Performance Assessment, 2008). El Naggar (2009) notes that aid does not meet the Egyptians needs, instead just concentrating on government reforms and ideologies. Unemployment and poverty is thus caused by the US aid and policies of international institutions.

Regarding the three economic sectors previously mentioned, they face many problems and challenges with implications on USAID policies.

First, the agriculture sector is a vital pillar of the Egyptian economy, but still it faces a lot of challenges. The USAID might have helped in providing infrastructure for wastes or water, or even advice to develop the sector. Nevertheless, through all these years (30 years), Egypt wasn't able to be self-sufficient in this sector and now Egypt is still importing food stuff from United States.

The editors of the Middle East Quarterly (1999) in their article "How American aid help Egypt" have criticized the U.S. aid policies that caused agriculture deterioration. The editors accused U.S. aid policies for declining productivity of Egyptian crops such as wheat and cotton and promoted it crops. Also, U.S. has conducted research on cotton strains and strain of cotton seed was introduced two seasons ago. Consequently, these seeds had either created cotton diseases or resulted in extremely low production per feddan. Regarding the wheat crop, U.S. AID experimented that the expansion of wheat-cultivated land is weakening the economic reform policies and is concerned to be moving away from the conclusions of joint studies. As result of these policies, balance of trade is in favor the United States particularly that Egypt import American wheat.

Another issue was mentioned is the implementation of the World Bank and U.S. aid policies has put an end to the Agricultural Credit Bank's role as a supporter of the agricultural projects and farmers restricting the financing facilities to USAID. These policies have also caused the bank to be indebted by a half billion Egyptian pounds.

Lewis (2011) has tackled the previously discussed project of The National Agricultural Research Project (NARP). The Egyptian side cannot deny the positive outcomes of this

project either research or productivity wise, but the project has stopped due to reduction in amount of aid funding of the project and cancellation of important parts of NARP by U.S. side.

A project had been implemented by USAID in the sector of education. The main target of the project is to encourage the usage use of new technologies in Egyptian education system and improving teaching and learning techniques. The program brought the Egyptian educators to U.S. and introduced the U.S. hardware and software of the system of education. The first negative point as the projects potential was so advanced to be implemented in a developing country like Egypt. A second conditional policy that was attained by USAID was not permitting the Egyptian administrator to visit other universities to examine their laboratories assuming it would be at the same level as in Egypt.

Reagrding trade and regardless of the recent trends of the United States to encourage the export of Egyptian manufactured clothes to United States through the QIZ, criticism has still been directed to USAID for not developing the textile industries. These by now should have been able to compete globally assuming that the United States had a flourishing textile sector which doesn't want a competitor in this field(Sami, 1999). Nowadays this field in Egypt is being upgraded, but questions remain about the past decades of cooperation with the USAID.

El Naggar (2009) argues that the USAID trend is helping the powerful businessmen who would implement "U.S.-chosen infrastructure projects that create few permanent job opportunities". From another perspective, it is also claimed that USAID benefits from the aid more than Egypt either politically, economically, or even strategically. The money of the



assistance goes back to the United States “in the form of the imported American products, work contracts that go to American companies at less competitive prices than Egypt could have obtained had the bidding been open to international companies, or the salaries of USAID experts.” (El Naggar, 2009). Studying the trade balance between the two countries from 1983 until 2007, it can be concluded that Egypt’s total accumulated trade deficit with the United States (\$45.1 billion) is bigger than the total amount of the US aid during this period. (El Naggar, 2009).

The previous examples resemble some of the negative effects of aid, as previously stated that the government of U.S. has been using aid for its own interest and policies. Mainly political interest is protecting Israel. By providing aid to Egypt and ensuring its stability, U.S. reaches its own interests. El Sayed (2001) argues that the main reason behind offering aid to Egypt is political reasons (as a reward to the Egyptian government for signing Camp David Agreement with Israel and facing the Arab and internal opposition). Also, the political aspect can be realized as the military aid exceeds the economic aid by half (El Din, 2004).

The blame for Egypt’s late economic development does not totally rely on USAID, but the Egyptian government policies is really a controversial issue. Related to aid, the Egyptian government showed disagreement with conditional aid provided by USAID or any other donor. The Egyptian government utilizes aid in developmental projects, still it is questionable do they all have the same level of importance.

Effective policies in all fields and sectors are announced by the government through the media and 5 year development plans are set to promote economic development, but the Egyptian society can’t feel any change in their socio-economic lives. The policies are either

poorly implemented or not implemented at all. The government gives excuses for not implementing them and promise to seek their implementation in the near future. Sharp (2009) argued that Mubark's government has been repressive against the society call for reform regarding topics like corruption, economic inequality, and political reform.

## **Chapter 5:** **Egypt's ODA Management and South Korea's Model .**

### **5.1 Egypt Management of ODA.**

During the developmental process of the developing countries and LDCs, ODA is either a blessing or a curse. The recipient government is responsible for the utilization of ODA, either ready and has a plan or just receiving aid for its own benefits. Egypt receives a good amount of aid (grants or loans) that should have facilitated its process towards development. It receives not only from the U.S. but other major European and Asian countries and international financial institutions. The government had failed throughout the years to handle and utilize the ODA efficiently and effectively. There was no aid coordination from the government.

El Mikawy (2002, 2) explains that Egypt although received large amount of US aid at the beginning of economic liberalization (1980s) that could have assisted during the take off period, but still there were many problems like slow institutional reforms which has discouraged foreign investments, inadequate legal structure, inefficient tax system , corrupt bureaucracy, and inadequate market facilities for Egyptian exports. Therefore, how aid can help the economy to develop when the basic infrastructure is fragile. The following points are the main reasons behind the Egyptian government poor management of ODA.

### 1) Corrupt Government

Although major reforms took place during 1990s with IMF's Structural Adjustment Program (SAP), aid during that period was kind of reward from donor countries (U.S., European, and Arab countries) to the Egyptian government for its participation in the Gulf War against Iraq. Glasser (2001,99) clarified that massive ODA was received as a reward and conditioned to have limited economic reforms. The Egyptian government has worked on limited economic liberalization and reform to ensure and obtain foreign financial assistance. Egypt obtained and requested more aid throughout the years under the intention of economic and political reforms that will take place, taking into consideration that the president of Egypt is the same person who had the same ideology and strategy on how to deal with foreign assistance.

Accordingly the aim of obtaining ODA is not development, but rather to keep the weak economic status quo. It can be proved how the GDP increases every year, and tremendous problems still facing the government like poverty, unemployment, inflation, budget deficit, and informal sector. Also, no pilot industries were established that could be the base of economic development.

**Table- 8 Egypt's GDP from 2001-2008**

Year	2001	2002	2003	2004	2005	2006	2007	2008
GDP Growth	3.5%	3.2%	3.2%	4.1%	4.5%	6.8%	7.1%	7.2%

Source: IMF, World Economic Outlook 2012

By the beginning of the 21<sup>st</sup> century, the government always seeks to proof for donor countries that the Egyptian economy is progressing economically and socially; consequently, the government is in need for more ODA to assist the government agencies in the

development process especially with increasing problems and demands of the population. Indicators of the economy showed general progress, but the foundation and reforms of the economy or education or trade or other sectors are poor that hindered progress. The increase or decrease of GDP growth was used by the government as tool for receiving more ODA.

## **2) Lack of vision for development associated with weak policies and strategies.**

The Egyptian government has 6 five year development plans since 1960. Accessing these plans, gives the impression it is just list of strategies that has to be followed during the 5 years, but there is no mechanism for implementation. Also, many projects are listed in each 5 year plan in all fields of development with no certain focus on a certain area for development. The projects listed in the 5 year plan are suggested by the concerned ministries and all of the suggested projects can be added to the 5 year plan without studying them or arranging them according to their priorities. The plans are based on over-optimistic assumptions on economic growth. All of the five year plans lack focus and correlation between the sectors of development.

The policies and strategies of the government are announced to the public, but in reality there is no implementation of these policies and strategies. Both are set and implemented according to the government needs or even for the personnel serving in the government. The same situation goes with economic or political reforms. Some minor reforms are implemented, but cannot even be realized and cannot drive the process of development.

Labib (2009) addressed that the Egyptian government had no plan or strategy for ODA received;

“As In this context, the planning apparatus lost its role as the main producer of economic expertise within the State. Imam and Aziz argue that drafting Five-Year plans became extremely difficult since the projects submitted by the different departments for future planning were to be mainly financed by foreign investments. As a result the main criterion for selecting projects was no longer based on economic development priorities but rather on the availability of foreign investments.”

### **3) Egypt and Aid Effectiveness**

Egypt is trying to achieve the Millennium Development Goals (MDGs) and now is seeking to reach aid effectiveness - which the different conferences had called for (Paris, Accra, and Busan). Ministry of International cooperation as the responsible authority of economic assistance had organized a conference in 2009 titled “Cairo Agenda for Action on Aid Effectiveness: A Mutual Agenda for action”, which was an initiative of the government and Egypt’s Development partner group (Dpg) attending twenty- seven bilateral and eleven multilateral agencies and two foundations. The Cairo agenda concentrates on two major considerations: the principles embodied in the Paris Declaration and the Accra agenda for action on aid effectiveness (namely ownership, alignment, harmonization, managing for results, and mutual accountability), and the specific development challenges facing Egypt. (Handoussa, 2010).

The following table shows Egypt’s dimensions of aid effectiveness in 2007 that indicated serious problems faces the government and need to be addressed:

**Table 9- Egypt's Dimensions of Aid Effectiveness**

Dimensions	2007	Challenges	Priority Actions
Ownership	Moderate	<ul style="list-style-type: none"> <li>• Weak budget preparation and implementation process</li> <li>• Limited use of country systems</li> <li>• Low proportion of donor missions is coordinated.</li> <li>• Low quality of poverty related data.</li> <li>• No mutual assessments have taken place.</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen capacity of line ministers in budget process.</li> <li>• Fully implement public financial management procurement reforms.</li> <li>• Donors improve co-ordination with donor missions.</li> <li>• Improve national information systems and plans.</li> <li>• Formalize assessments between ministries and donors.</li> </ul>
Alignment	Moderate		
Harmonization	Low		
Managing for results	Moderate		
Mutual accountability	Moderate		

Source: OECD/DAC 2008 Survey on monitoring Paris Declaration ; making Aid Effective by 2010.

#### **4) Problems arising from the Egyptian implementing authorities:**

Aid is provided after the approval of the recipient and donor country on the projects that shall be implemented and financed through grants or loans. To reach mutual consent, it takes long negotiations between the parties on the obligations and undertakings of each of them. Then signing an agreement between them is the framework to start the implementation of the projects after the termination of all domestic legal procedures. During the implementation of the projects many problems arise from the recipient or donor. The concentration –in this context- will be on the problems of the recipient which is Egyptian implementing authorities.

The Egyptian Central Auditing Organization<sup>1</sup> (CAO) publishes a yearly report that overviews and monitor ODA system highlighting problems facing the Egyptian implementing authorities and donor countries and agencies in regard to loans and grants provided to Egypt. The CAO report mentions that poor management of ODA relays on the

<sup>1</sup> CAO is an independent body with legal personality generally following the President of the Republic. It aims to achieve control over state funds and other public funds of persons and other persons set forth in the law. Parliament also collaborates in carrying out its duties.

Egyptian implementing authorities that utilizes the allocated funds (grants or loans) so slowly due to the delay in providing technical specifications required for supplying the machines and equipments for the projects. In addition, the Egyptian side has inadequacy of local financing for the set projects.

Financial burden on state budget could have been avoided if the authorities have made good use of the grants provided. The CAO had proved that the inability of the Egyptian side to benefit from projects financed by loans and grants from donor countries due to funding, regulatory and administrative problems. Also, The Egyptian side does not carry its undertakings in accordance to the signed agreement.

The CAO highlighted that some of the donor countries approve on the financial plans and implementation procedures of the projects without taking the approval of the Egyptian side and contractors failed to meet their contractual obligations.

Delay of implementing certain projects goes back to the inaccurate feasibility studies – financially or technically- done under the supervision of both Egypt and the donor country for the implementation of a certain project.

## **5.2 South Korea as a successful Model**

Introducing South Korea as a model is important for all developing countries as it was one of the poorest countries and changes to be a leading developed industrial country. In the 1960s Korea lagged behind many African countries and now it belongs to the OECD development assistance committee.

Korea benefited from injections of foreign aid from U.S. and Japan. South Korea received from U.S. about \$60 billion in grants and loans between 1946 and 1978 (Tran, 2011). Korea was an important ally to U.S. during and after the cold war.

Korea in the 1950s has taken emergency relief as well as reconstruction funds from the international community and U.S. was the main donor. At that point foreign assistance was in the form of grants which assisted in making the country's capital, that was a reason to the rapid economic growth at the average annual rate of 4.9% between 1954 and 1960 (EDCF, 2011).

After the war, the main aim was to rebuild the production capacity and to increase the level of private consumption. The starting era was not easy, the economy faced a lot of difficulties with high inflation rate as result of the monetary expenditures and decrease of money supply; the government had to put a stabilization program (Kim, Kwang suk and Kim, Joon –Kyung, 1997,13). Also, the policies at the early 1950s, were concentrated on the import substitution policies to enhance and promote industrial facilities at the initial phase by importing equipments of untraditional sectors or non durable consumer goods like petrochemicals, electric machinery. ( Chung, 2007,85).

From 1957, the grant aid to Korea began to decline and was replaced by loans after the end of 1959. The Foreign Investment Promotion Act took place in January 1960 when the Korean government attracted foreign investment from the developed world and efficiently utilized the foreign resources to implement Five-Year Economic Development Plan. Between 1961 and 1975, Korea received 30.9 % of its total aid, and aid provided resources for government capital, investment, industrial infrastructure and technological development (EDCF, 2011).



During that period, Government policies were behind the enhancement of industrialization and Korean economic growth. At the early 1960's , the main motives for the industrialization period started under the leadership of President Park Chung Hee. The import substitution plan has been replaced by export promotion as imported goods have been replaced by domestic manufactured goods (Kim, Chuk Kyo,1997, 73). The Korean government at this stage wanted to increase foreign exchange earnings from the locally manufactured products which were essential to repay the imports of energy and other necessary intermediate goods and raw materials.

A package of incentives has set by the Korean government during the 1960s; starting with exempting exporters from tariffs on imported intermediate products and inputs used in the exported products. The government carried on these incentives on exporters by exempting them from indirect taxes for imported goods and domestic purchased intermediate goods; adding to that 50% income tax reduction on foreign exchange earnings from exports ( Dijck, Linnemann, and Verbruggen, 1987, 320-322)

With such incentives, Foreign economic assistance played a major role to increase domestic saving and foreign exchange earnings, as during 1953- 1962, grant aid was in the form of aid financed imports which resembled 70% of aid at that time. So imports at that time were mainly machines and intermediate inputs used in the final products that are exported by the Korean government. (Mason and ed., 1980, 187). Eventually, aid financed imports had helped the Korean government to increase its domestic savings through its exports. Domestic savings were used in internal development like education, building infrastructure, or importing more goods for the industrialized sector. US was the major donor country to South

Korea as its economic assistance was aid financed imports or technical assistance through implementing major projects or through loans. (Mason and ed., 1980, 191).

Regarding the atmosphere offered by the government, it had set policies under the name of “Export Oriented Industrialization”. Under this strategy, the government has adopted out world looking strategy benefiting from Korea’s comparative advantage in “labor intensive manufactured goods for exports” (Ahn and Kim, 1997). At this period, there was a close relationship between the business sector and the state. Also, government supported the Korean Trade Promotion Cooperation (KOTRA) to market the Korean products overseas under the export promotion policies especially in European countries. Kim, Chuk Kyo added that the existence of governed incentives are the main reasons behind the success of this strategy and that is through the reduction of income tax (earnings gained by exporters) by 50% , providing export credit system which is receiving loans with low interest rate to encourage industrial investment as the interest rate reached 6.5% in 1965. The loans and credits were controlled by the government after the nationalization of the banking sector during this period. Another essential incentive was the devaluation of the Korean won to enhance exportation; at the same time there was strict protection strategy towards local industries which started to be diversified in different areas like producing automobile parts and components, petrochemicals, ship building equipments (Kim, Chuk Kyo, 1997, 73).

By the late 1970’s and due to the oil shocks , petrochemical companies and other field related industries had severe financial problems; moreover, the government faced problems in the Balance of Payment and high inflation rate due to its high financial subsidies offered to the Heavy and Chemical Industries. From 1964- 1974, the Korean government started to receive loans from the American government in order to direct it to HCI which was source of export

earnings and foreign investment was another source of capital to solve mentioned financial problems. By 1975, the Korean government stopped financial assistance from donor countries and depended on its own resources.

Under Chun Hoo Hwan administration in 1980, the government concentrated on stabilizing the economy; moreover, policies were issued during the 1980's towards economic liberalization and less government intervention and encouraging the private sector to take place in the market aiming for international integration (Ahn and Kim, 1997, 345-6).

Through the following table, we can interpret Korea's major economic indicators over the Past Five Decades, concentrating on economic growth and per capita income which increased rapidly.

**Table 10- Korea's major economic indicators over the Past Five Decades**

Year	1954	1960	1970	1980	1990	1994
Economic Growth(%)	5.1	1.1	7.6	-3.9	9.6	8.2
GNP(\$100 mil.)	15	19	81	606	2,518	3,769
Per Capita GNP(\$)	70	79	253	1,597	5,883	8,483

Source: The Korean weekly, August 21, 1995

As it can be observed, Egypt and Korea had almost the same interval of years to develop. Korea started to receive aid during the 1950s and by the end of the 1970s and 1980's economic growth was achieved. This advancement goes back to the government policies, plans and strategies regarding each transitional period in Korea. Egypt has been receiving aid since 1970s and until now, economic development is still a target of the Egyptian government. Egypt has been more dependent on aid either grants or loans to implement developmental

projects but without a clear vision and determination. Interviewing some of the employees at the different ministries, they had emphasized that aid goes to any kind project, some might be important others not.

The following table is a comparison between eight countries regarding the basic indicators of the economy. The table includes Egypt and South Korea where the huge difference in the indicators is quite clear in the GNP and literacy.

**Table 11 -Indicators of Development in Eight Countries.**

**Indicators of Development for Eight Countries**

Country	GNP per Capita <sup>a</sup>		Population (Thousands)		Literacy <sup>b</sup> (Percent)		Infant Mortality <sup>c</sup> (Percent)		Calories Consumed Daily per Capita	
	1960	1991	1960	1994	1970- 1975	1985- 1990	1967	1992	1961	1992
South Korea	800	9,790	25,003	44,563	88	96	58	11	2,187	3,285
Philippines	911	2,893	27,560	66,188	83	90	72	44	1,708	2,255
Costa Rica	1,963	5,002	1,236	3,304	88	93	68	14	2,168	2,886
Honduras	733	1,583	1,894	5,493	57	73	119	43	1,960	2,306
Botswana	964	3,123 <sup>d</sup>	480	1,443	41	72	105	43	2,054	2,264
Zambia	879	685	3,141	9,196	n.a.	73	115	104	2,140	1,931
Tunisia	1,067 <sup>e</sup>	3,571	4,221	8,815	38	65	138	43	2,069	3,332
Egypt	330 <sup>e</sup>	2,781	27,840	57,556	n.a.	48	170	67	2,281	3,335

SOURCE: Congressional Budget Office based on data from the World Bank, the Agency for International Development, and the University of Pennsylvania.

NOTE: n.a. = not available.

a. Gross national product (GNP) is in 1994 dollars and is calculated using estimates of purchasing power parity.

b. Literacy is the percentage of literate people in the population over the age of 15. (The data represent a survey made at some point during the five-year period.)

c. Infant mortality represents deaths per 1,000 live births.

d. Value is for 1989.

e. Value is for 1961.

### **5.3 Suggested Solutions to improve ODA Management:**

The government has to provide adequate local funding to meet the Egyptian side's obligations of the projects which are co-financed by loans and grants. Also, it should take advantage of the unused funds by implementing the assigned projects or choose new projects

for implementation. The government institutions are responsible to work together through a set mechanism to overcome any administrative and regulatory obstacles that the implementation of projects might face.

Fighting corruption in government is a major aspect that has to be tackled by setting fierce penalties for corrupted government personnel especially who are dealing with donor countries. One solution is to establish a supervisory agency that would supervise projects' financial situation and implementation procedures and would find out corrupted actions. This agency's duties and responsibilities have to be stated in the signed agreement between the donor and recipient country. This process might take time and effort as the corruption is spread in most of the governmental agencies.

The Egyptian government should cooperate with OECD and donor countries to learn new strategies and methods to achieve aid effectiveness. The strategies and methods would include putting a legal framework that can manage all aspects of aid provided to the developing countries from providing aid and implementing strategic projects, supervision on these projects, and evaluation of the outcomes of that aid. The legal framework would ensure the transparent and effective use of the funding for socio-economic development. In addition, achieving aid effectiveness would be through high coordination level between government agencies and enhancing collaboration with the private sector and civil society. The stakeholders should work together to ensure the accountability of the aid. The improvement and transparency of monitoring, evaluating and reporting is another essential aspect for the stakeholders to overcome any problems facing ODA projects or system in the future.

The Egyptian implementing authorities should give more attention to feasibility studies prepared for the projects to avoid problems such as the inability to achieve planned schedules and achieve best use of the provided grants and loans. Moreover, Egyptian employees should exert more effort in negotiating with donor countries for better conditions for the Egyptian side. The signed agreements between the recipient and donor country must mention that the Egyptian side has the right to know information about projects which are being implemented.

Another task for the government is to activate the role of the Egyptian Institute for National Planning by allowing the employees at the institute to study the market and its needs; moreover, permitting them to conduct research studies on how to develop the role of the institute to be more effective towards development process and inquiring about the ODA recourses and approach to benefit from it.

After research, the institute role is to restructure the 5 year plan in an organized and correlated model that would enhance development through the different sectors of the economy. Handoussa (2010) recommended several ideas to develop and have an efficient 5 year plan that shall drive development process in Egypt. A new system of coordination between sectors' strategies serving common goals and vision will benefit many people and sectors. The plan should include a national vision with specific sectors, issues, and regional strategies and different levels of achievements taking into consideration other issues like human resource development, division of role between stake holders, and demographic recognition. Also, the plan should include ODA role in implementing the 5 year plan and strategies to better utilization of ODA.

In addition to setting a mechanism for implementation, alliance between Public and private sector; also, cooperation between central and local stakeholders are important agents for development. For example, private sector can participate in building infrastructure, NGOs can assist in public services like education and health, and donors would participate in pilot projects according to governments' priority sectors.

All the previous recommendations are hard to be implemented altogether and it may take time to implement. It might be hard at the beginning as changing the ongoing strategies and putting new ones would take time and effort. Also, developing the capabilities of the Egyptian employees on different levels and changing the system that has been running for several years is not an easy task especially corruption. Entering new stakeholders in the development process might cause instability and confusion of roles.

The Egyptian government has to set plans and priorities for its work towards ODA management on the local level –within the different Egyptian authorities and ministries- or on the donors' level –bilateral or international agencies. On the local level, the plan would include the government rules for receiving aid (grants and loans) and how it would be monitored by the government agencies. In addition, the 5 year plan should be designed to drive developmental projects. The ministries should work within the framework of government priorities. On the donor level, the government should be strong enough to put its own rules and regulations regarding receiving ODA from donor countries or institutions. The government should not accept any pressures from donors.

Finally, developing countries and LDCs have to experience other countries' model of development. The main target is to learn how the different governmental institutions

cooperated to reach specific goal within a specific time framework. In addition, it is important to realize the importance of setting the right policies and strategies with the available resources. South Korea is one of the leading models that should be studied by developing governments.



## **Chapter 6**

### **CONCLUSION**

There is little doubt that the US aid had a role in the development and growth of the Egyptian economy, but it is still not significant enough. This study concentrated on the three economic aspects that had been funded by the aid. However, the concern of this study is to tackle the effects of the US aid on the progress of the Egyptian economy and discern the defects that need to be restored by both the Egyptian and the American side. Also, taking into consideration that U.S. general announced goal is to stimulate economic development in Egypt, but the main goal designed for political and strategic factors and the aid received by Egypt represents security and not development aid.

The previous chapters highlighted the main sectors of cooperation between the two governments, envisioning the problems that arise as result of the aid. After 30 years, many problems still exist; Egypt has not even reached a competitive position in the international market, although reforms have taken place since the 1990s. Aid is not offered only from the USAID, but also from other donor countries, international organizations and agencies.

The findings showed that United States foreign aid to Egypt is important in solving many problems that the 80 million inhabitants face. It is not advisable to depend on aid totally, as this will lead to other problems, but utilizing the aid in the correct way to be independent economy is essential. South Korea is a real example that managed aid wisely.

More work and concentration from the Egyptian government is needed to address the problems caused by aid. ODA management is an important issue it is not an easy task, but it needs high level of reforms, coordination, planning, and monitoring. Egypt has the potential to be an economic leader, but the government needs to focus on the strategic development policies needed for that target, even if dependency on aid is part of it.

The Egyptian government has to set applicable and valid policies and strategies for the take off period focusing on political, economic and social development interchangeably. Also, the government has to put a concise and focused 5 year plan and the most important part is to implement it. Restructure the Institute of National Planning is another target and that would be by replacing the current inefficient employees and hiring more efficient experts that would assist in setting the developmental plan and following it, and establishing research and development center.

Supervision of the Egyptian side over the distribution of the aid is essential. The 5 year plan should be specific on the major sectors needed and the strategies to be followed for best utilization of aid. The plan should include the poor governorates as during the past years concentration of the assistance goes to those governorates that are not in need of the aid. Upper Egypt needs a lot more assistance than the northern part. Rural areas count for the greater portion where poverty, unemployment and unskilled labor exist.

The Egyptian government has to be alert of the amount of aid received and how it is being used. Other nations like South Korea and Taiwan received aid at their take off period and with the right government policies and strategies, now they are leading economies competing in the international market and providing aid for third world countries.

Like the Asian tigers, the Egyptian government has to modernize and diversify the industrial sector to produce high quality products and reach international standards of technological advancement. For this kind of cooperation with USAID, it is important as they could provide the Egyptian market with the capital, technology and know-how; in addition to their support to small and medium enterprises. The Egyptian government has to focus on directing most of the received aid to the industrial sector in order to have certain industries and encourage exportation. Attia (2009) said “Reforms made in customs and trade facilitation will be of limited benefit unless there are highly qualified industries.”

Another step is to have close relations between the public sector and private sector, civil society and NGOs who are going to be an engine to decrease the burden on the government in many economic and social aspects. The private sector may assist in many ways like industrial development. Civil society and NGOs shall contribute in social aspects like education and health. Relations between government and the three stack-holders have been weak and unreliable.

Donor countries have strategic reasons behind providing aid to developing countries. ODA is a method to reach their strategic goals. Donor countries are even competing who will give more to win the alliance of the recent government. If donor countries really seek prosperity for developing countries and LDCs, so they have to stop putting an agenda for providing ODA, but assist these countries with real intentions to reduce poverty and foster development. No conditions on offering ODAs, transparency during the implementation of important projects, transfer technology and Know-how without limitations, and providing technical assistance are the main issues that donor countries have to be take into consideration while dealing with recipient countries.

The US aid is highly criticized by the Egyptian scholars and opposition; even the normal Egyptian person cannot feel the effect of the aid. The USAID should engage in projects that will have direct effect on the people. U.S. aid helped in decreasing unemployment, but a very small portion in comparison with the aid objectives and quantities. For example, small and microenterprises is one of the USAID projects that are being successfully implemented in Egypt. USAID should provide not only the financial aspect to support the young entrepreneurs, but also technical support, as money without guidance and expertise will lead to a dead end. Therefore, the USAID should provide expertise for the young people by directing them.

In the same context, the Egyptian media is known for its aggressive opposition on most of the issues related to the government. The media is not helping, but it is activating the public opinions without presenting solutions. There has to be a new vision on how to present a problem and ways to solve it. Addressing aid, media could present the positive consequences of aid and how the society could engage in benefiting from ODA and giving people the opportunity to participate in addressing the government in a transparent environment.

The limitations of the study are that it did not include the direct effect of US aid on the economy of Egypt; it has just tackled three economic sectors with less concentration on the military and political assistance. In addition, the study tackled problems of Egypt's ODA management and recommendation to solve them. More details and studies are need to tackle problems of ODA management in developing countries and provide recommendations with further depth tackling all the stakeholders who can assist in coordination and management of ODA.

Developing countries are eager to receive more aid from donor countries, but with limited vision of development. Model cases of development like South Korea, Taiwan and Malaysia should be studied and taken into consideration. Egypt has some of the main tools that South Korea has started its take off period such as: a planning institute, 5 year plan, trained and skilled workers, presence of private sector and qualified educated personnel. The main objective of taking South Korea as a model and example is to identify how the Korean government was able to use the available resources to reach development through good economic policies (including aid utilization and management policies), monitoring and implementation.

Development and progress is not an easy task for any government with several economic, political, social, and financial problems. Developing and LDCs need to be acquainted with their countries' needs, resources, and capabilities to be able to reach their objective with the right implementation of strategies and policies.

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